COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3556-01
Bill No.: HB 993
Subject: Elderly; Property, Real and Personal; State Tax Commission; Taxation and Revenue - General; Taxation and Revenue - Property
Type: Original
Date: February 2, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension Fund *	$0	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds *	**$0**	**(Unknown)**	**(Unknown)**

* expected to exceed $100,000.
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government *	**(Unknown)**	**(Unknown)**	**(Unknown)**

* expected to exceed $100,000.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning**, assume this proposal would have no impact on their organization.

Officials from the **Department of Revenue** assume the proposal would have no impact on their organization, and defer to the State Tax Commission's estimate of revenue impact.

Officials from the **Office of the County Assessor** (Office) assume there would be no additional revenues or savings to their organization from this proposal. The office assumes a one time programming fee of $2,500 in 2005 would be needed for compliance with the proposal.

ASSUMPTION (continued)

The Assessor's office would have to maintain a separate accounting of homestead properties and this would require additional personnel time. It is estimated a half time person would be needed to maintain and implement this program on an ongoing basis at a yearly expense (including payroll expenses) of $13,000 per year, or $26,000 per reassessment cycle.

For 2005, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss caused by this bill to all taxing jurisdictions would be approximately $565,000. The loss to the Cole County Assessment fund (1/2 of 1% of taxes collected) would be approximately $2,825.

For 2006, it is assumed there would be no loss. The treatment of new construction, alterations and additions is not addressed in the language of the bill.

For 2007, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss caused by this bill to all taxing jurisdictions would be approximately $655,000. The loss to the Cole County Assessment fund (1/2 of 1% of taxes collected) would be approximately $3,275.

Of the total losses listed above, 3% is earmarked to the State for the blind pension fund.

The Cole County Assessor utilized a recent demographic study by the Jefferson City Area Chamber of Commerce for information regarding population housing, and income, broken down into different age categories. Utilizing this study, in addition to information in the Assessor's files, the following are estimated concerning homestead properties.

Population:

Over 65 make up 11.5% of total county population
Over 65 make up 15.5% of total county population over the age of 18
Over 65 make up 17.14% of total county population over the age of 24

8,081 population of persons 65 or older in Cole County
60.7% (approx. 4,850) live in Family Households

ASSUMPTION (continued)

Housing:

There are 27,064 occupied housing units out of a total 28,915 housing units in Cole County. 63.4% of housing units are owner occupied.
27,064 x .634 = 17,159 total owner occupied housing units

The highest possible number of households owned by those over 65 is 4,850/17,159 = .2827 or 28.27%

Senior estimates:

For the purposes of estimations for this homestead legislation, the Cole County Assessor estimates that as much as 25% of residential, owner occupied property could possibly be owned by those over 65; this estimate is on the high end so as not to underestimate the potential effects of homestead legislation.

It should be noted that while Homestead legislation affects those over 65 who own property, that approx. 40% of this population segment do not own property and are offered tax relief through the Missouri Property Tax Credit Program.

The Assessor's work load would not change as all properties under this bill still need to be inspected during physical property review for additions, alterations, and/or deletions. The work load of the Assessor would actually increase due to this program.

In response to a similar proposal, officials from the **Department of Elementary and Secondary Education** (DESE) noted that the proposal would prohibit reassessment of real property owned by persons aged 62 or more. The reduced increase in total assessed valuation may result in no reduction in property tax rates that otherwise might occur per Article X of the Constitution.

While the proposal does not reference the state school aid foundation formula, DESE assumes non-hold harmless districts could potentially recover the lost local revenues through the state aid formula if the appropriation for the formula would be sufficient to provide a proration factor not less than 1.00. The proposal could therefore increase the cost to fully fund the state foundation formula. Hold harmless districts would experience a decrease in local revenue unless the General Assembly appropriates sufficient funds to compensate those districts for the lost revenue.

Oversight assumes the Foundation Formula issues, if any, would be addressed through the appropriation process.

Officials from the **State Tax Commission** assume there would be a loss of revenue in 2005 as a result of this legislation.

The 2003 assessed valuation for residential property was $36,168,817,425. As there are minimal improvements to residential property in an even-number year, we will assume for 2004, the assessed valuation will again be approximately $ 36.1 billion. According to the 2000 census information, 70.3% of the housing units are owner occupied with 25% of the householders 62 and older.

$36.1 Billion x 70.3% (residential property owner occupied) = $25,426,678,649.

$ 25.4 Billion x 25% (residential property owner occupied over 62) = $6,356,669,662.

$6.3 Billion x 7% average assessment increase = $444,966,876.

$445 Million x $6.13 per hundred dollars (average state tax rate) = $27,276,469

$27.2 Million estimated revenue loss.

Oversight assumes it is not possible to estimate the amount of net tax losses to political subdivisions. This proposal would prohibit reassessment of real property and improvements owned by those over 62 who use the property as their personal residence. Oversight assumes the first reductions would occur in 2005 taxes collected in FY 2006.

Actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. Reducing the increase in assessed valuation on individual parcels would in turn reduce the tax rate rollback required, primarily shifting this tax burden to other taxpayers. Oversight assumes that after FY 2005, net losses to political subdivisions from this provision, as compared to current law would exceed $100,000 per year.

Oversight assumes there would also be gains and losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
BLIND PENSION FUND			
Revenue reduction			
Reduced tax collections *	$0	(Unknown)	(Unknown)
NET EFFECT ON BLIND PENSION FUND *	**$0**	**(Unknown)**	**(Unknown)**

* expected to exceed $100,000.

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
Revenue reduction			
Reduced tax collections *	(Unknown)	(Unknown)	(Unknown)
Cost to counties			
Additional administrative cost to county assessor, collector, and clerk. *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**(Unknown)**	**(Unknown)**	**(Unknown)**

* expected to exceed $100,000.

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill would authorize a homestead exemption for purposes of real property taxation for taxpayers who have reached the age of 62 years or older. The homestead exemption amount would be in the amount of property taxes resulting from increases in assessed valuation on the homestead from the
year the taxpayer reaches the age of 62 or the effective date of the bill, whichever is later. A qualified taxpayer would file an affidavit with the county assessor verifying the age of the homeowner. The bill has an effective date of January 1, 2005.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
State Tax Commission
Office of Administration
Office of the Cole County Assessor

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